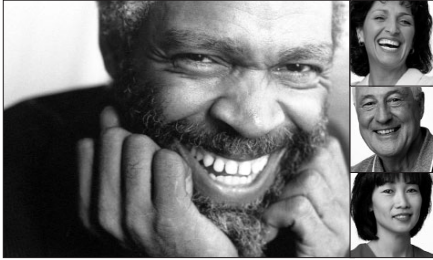




FOCUSED • QUALIFIED • STRATEGIC



Dependent Care Assistance Program

for the

Commonwealth of Massachusetts
GROUP INSURANCE COMMISSION



PROGRAM OVERVIEW

Participating in a
Dependent Care Assistance Program (DCAP)
can significantly reduce your Federal
and Massachusetts state income taxes.

E M P L O Y E E

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Dependent Care Assistance Program

PROGRAM OVERVIEW

A qualified Dependent Care Assistance Program (DCAP) allows individuals to pay for certain dependent care expenses with before-tax dollars. The benefits of a DCAP can only be derived from participation in an employer-sponsored program. The Commonwealth of Massachusetts is proud to sponsor such a program for the benefit of its employees.

Participating in a DCAP can significantly reduce your Federal and Massachusetts state income taxes. Section 129 of the Internal Revenue Code makes this tax benefit possible only if employers sponsor this program for their employees. Through a DCAP, participants may pay pre-tax for qualified Dependent Care expenses. (See question 9 for details.) The program allows a participant to contribute up to \$5,000 per family unit annually on a pre-tax basis. For taxpayers in a 27% income tax bracket, a \$5,000 contribution to the DCAP would save \$1,350 in taxes. (See question 3 for details.) For many, a DCAP provides a better tax benefit than the Federal Tax Credit.

Sentinel Benefits makes participation in a DCAP simple, convenient and confidential. Once you decide how much money you would like to deposit to your DCAP account, the Commonwealth of Massachusetts will deduct that amount from your paycheck each pay period on a before-tax basis. As you incur expenses, you may submit them directly to Sentinel Benefits for reimbursement using a simple claim form.

All DCAP claims are processed daily and reimbursements are directly deposited to your bank account each Friday. All reimbursement benefit payments come with an Explanation of Benefits to make reconciling with your records simple and easy. All claims processed by Sentinel Benefits are kept confidential.

Commonly Asked Questions & Answers

1. How does a DCAP save taxes?

Every dollar contributed to a DCAP is done on a before-tax basis. The Commonwealth of Massachusetts deducts the amount that you elect directly from your "gross" wages. This means that DCAP contributions are deducted before Federal income and Massachusetts state income taxes. A person in the 27% tax bracket, for example, would save \$270 for every \$1,000 contributed to DCAP. (See back of this brochure for a comparison of a DCAP to the Federal Tax Credit.)

2. Will taxes be due on my DCAP contributions at a later date?

Contributions to a DCAP are not subject to tax. Your year-end W-2 form from the Commonwealth of Massachusetts will properly notify all of the government agencies of your participation in the program.

3. What is the maximum amount that I may contribute to my DCAP account?

Internal Revenue Service regulations limit the maximum amount that you may contribute to the program. Currently the maximum is the lesser of \$5,000 per year per family or 100% of the lowest paid spouse's income.

4. When and how do I participate in the DCAP?

You may only elect to participate in this program annually (January 1 through December 31) during the open enrollment period. Unless you have a "change in status," you may not enter the program during the regular plan year. To join the program, you must complete a one-page enrollment form. This form and others are available through your DCAP Coordinator or may be downloaded from the GIC web-site www.state.ma.us/gic.

The most important question that you will need to answer is "how much money should I contribute?"

You must carefully estimate your expenses to a DCAP because money not spent during the plan year is forfeited.

(See Question 7 for details.) Therefore, it is best to limit your DCAP contributions to only the amount that you are fairly certain you will spend during the plan year. To best predict your expenses for the upcoming year, you may want to examine prior-year records to determine how much money you expended for dependent care related expenses.

You may contact your DCAP Coordinator for specific enrollment dates.

About The Dependent Care Assistance Program

5. May I change my contribution election during the plan year?

You may change your contribution election at the beginning of each plan year. You may only change your election during the plan year if you can demonstrate a "change in status." Only the following events will be considered a valid change in status under Internal Revenue Service rules:

- Change in legal marital status;
- Change in number of dependents;
- Change in employment status;
- Change in work schedule which changes your eligibility for the program;
- Dependent satisfies or ceases to satisfy eligibility requirements;
- Change of residence or work-site; and
- Judgment, decree or order pertaining to child or spouse.

6. How do I get reimbursed for my qualified DCAP expenses?

As you incur qualified expenses, you may file a claim for reimbursement with Sentinel Benefits. Sentinel Benefits is a third party administrator that has been hired by The Commonwealth of Massachusetts to adjudicate and process all reimbursement claims on behalf of your program.

You must submit your claim using a Sentinel Benefits Claim Form. This form and others are available through your DCAP Coordinator or they may be downloaded from the GIC web-site www.state.ma.us/gic.

All claims must be mailed or faxed to Sentinel Benefits with a copy of a paid receipt or an invoice with a canceled check, or other supporting documentation that proves payment. Dependent Care claims must include a tax ID or Social Security number of the dependent care provider. All claims are processed daily and are reimbursed on a weekly basis.

7. What happens if I do not spend all of the money in my DCAP account by the end of the plan year?

The Internal Revenue Service requires that any unused funds in a participants account at plan year-end be forfeited. Therefore, it is very important that you estimate your contributions carefully.

To alleviate some concern about forfeitures, Sentinel Benefits provides a 90-day grace period after the close of the plan year to submit all claims incurred in the prior plan

year. For example, if your plan ended December 31st and you incurred an expense on December 26th you would have until March 31st the following year to submit a claim. After the 90-day grace period expires, Sentinel Benefits closes all accounts for the prior plan year.

8. Can I enroll in the program after the "Open Enrollment Period"?

Ordinarily the answer is no. However, if you are a new employee, you are eligible to enroll upon your date of hire. Further, if you have a "change in status" during the plan year, you may also be entitled to enroll in the program. (See Question 5 for details.) Contact your DCAP Coordinator to complete your enrollment form. You have 30 days from your date of hire to enroll in the DCAP Program.

9. What are eligible DCAP expenses?

Eligible expenses under a Dependent Care Assistance Program are defined as those that enable the participant and the participant's spouse to work or to look for work. They include the following:

1. Child care centers that care for six or more children and meet the IRS's definition of a qualified day care center;
2. Caregivers for a disabled spouse or dependent who lives with the participant;
3. Babysitters;
4. Nursery schools;
5. Day Camp; and
6. Household expenses provided that a portion of such expenses is incurred to ensure a qualifying dependent's well being and protection.

10. What does a "qualified dependent" mean?

A qualified dependent is a person that you claim on your tax return as a "dependent." The DCAP plan is intended to reimburse the participant for claims incurred for the care of a qualified dependent while you or your spouse are working or gainfully seeking employment. A "qualified dependent" for purposes of DCAP (and the Federal Tax Credit) must be under age 13. However, if a dependent is mentally or physically handicapped, they will remain a qualified dependent in the DCAP irrespective of age.

Note: In compliance with the IRS guidelines, the service provider cannot be an individual for whom a personal tax exemption may be claimed. In addition, a child of the participant or spouse cannot be under the age of 19.

TAX SAVINGS OF THE DCAP PROGRAM

DCAP versus Federal Tax Credit

Using the DCAP can provide a significant tax benefit as compared to the Federal Tax Credit. In the example below, the taxpayer using the DCAP saves \$370 more over the taxpayer using the Federal Tax Credit.

	DCAP Tax Benefit	Federal Tax Credit
Annual Income	\$48,000	\$48,000
Total Annual Day Care Expense for 1 child	\$3,500	\$3,500
Estimated Federal & State Income Tax Savings (32%)	\$1,120	—
Estimated Federal Tax Credit (21% up to the first \$2,400 in child care expenses)	—	\$ 750
TOTAL NET SAVINGS	\$1,120	\$ 750

You should check with your personal tax advisor concerning your particular circumstance. Sentinel Benefits does not render individual tax advice and the example above should not be construed as advice.

■ Federal Tax Credit

Section 21 of the Internal Revenue Code provides guidance to taxpayers that seek a tax credit for dependent care expenses. Essentially, the Federal tax credit allows a taxpayer to receive a tax credit for work related expenses incurred for the care of a dependent child under the age of 13 and/or for a disabled adult dependent, while the taxpayer and spouse are working or gainfully seeking employment.

The maximum amount of expenses that may be considered for purposes of the Federal tax credit is \$3,000 per year for one dependent and \$6,000 for two or more dependents. The actual tax credit received by a taxpayer is determined based on Adjusted Gross Income.

If you would like to determine how the Dependent Care Assistance Program can save taxes for you, please log on to Sentinel Benefits website at www.myfsa.com to use our Dependent Care Comparison Calculator.

Convenient and Confidential

Toll-free voice response account information1-800-819-9833

Confidential Internet Access to account informationwww.myfsa.com

Confidential email questions and responsesflexhelp@sentinelbenefits.com



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